



Umkhanyakude District Municipality

**Annual financial statements
for the year ended 30 June, 2020**

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

General Information

Legal form of entity	DC27 Umkhanyakude District Municipality
Executive Committee	Cllr Mkhombo T.S. (Mayor) Cllr Hlabisa F.C (Deputy Mayor) Cllr Msane M.S (Speaker) Cllr Moodley G.P (Exco Member) Cllr Ngcobo M.S (Exco Member) Cllr Zungu M.C (Exco Member)
Councillors	Cllr Gina M.A Cllr Gumeade K.S Cllr Gumeade R.H Cllr Gumeade V.E Cllr Gumeade V.M Cllr Khoza S.J Cllr Khumalo C.T Cllr Mabika D.P Cllr Mabika A.V Cllr Madlopha P.B Cllr Mathenjwa B.S Cllr Mhlongo Z.M Cllr Mpontshane K.N Cllr Mthembu M.J Cllr Mthethwa N.R Cllr Mthethwa N.S Cllr Mthethwa S.P Cllr Myeni S.R Cllr Mzinyane S.W Cllr Ngubane J.G Cllr Sithole M.B Cllr Zulu N.R Cllr Zuma N.E
Grading of local authority	Grade 4
Accounting Officer	Nkosi M.A
Chief Finance Officer (CFO)	Mabika T
Business address	Harlingen No. 13433 Kingfisher Road Mkuze 3965
Postal address	P.O. Box 449 Mkuze 3965
Bankers	ABSA
Auditors	Auditor-General South Africa Registered Auditors

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

General Information

Nature of business and principal activities

The provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

Legislation governing the municipality's operations

- Constitution of the Republic of South Africa (Act 108 of 1998)
- Local Government: Municipal Finance Management Act (Act no.56 of 2003)
- Local Government: Municipal Systems Act (Act 32 of 2000)
- Local Government: Municipal Structures Act (Act 117 of 1998)
- Municipal Property Rates Act (act of 6 2004)
- Division of Revenue Act (Act 1 of 2007)

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Index

The reports and statements set out below comprise the annual financial statements presented to the municipal council:

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 27
Notes to the Annual Financial Statements	28 - 59

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
WSSA	Water and Sanitation Services South Africa (Pty) Ltd

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is wholly dependent on the grant allocations through Division of Revenue Act (DORA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern that the Provincial and Governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 5 to 59, which have been prepared on the going concern basis, were approved by the audit committee on 29 Oct, 2020 and were signed on behalf of the council by:

M.A Nkosi
Accounting Officer

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Statement of Financial Position as at 30 June, 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	3	130,174,666	126,189,805
Other receivables from exchange transactions	5	2,622,915	9,249,249
VAT receivable	6	34,047,067	15,858,244
Receivables from exchange transactions	4	60,611,271	44,474,724
Cash and cash equivalents	7	60,183,062	40,140,071
		287,638,981	235,912,093
Non-Current Assets			
Property, plant and equipment	8	2,090,744,587	1,943,147,243
Intangible assets	9	95,224	141,122
Heritage assets	10	586,000	586,000
		2,091,425,811	1,943,874,365
Total Assets		2,379,064,792	2,179,786,458
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	294,356,223	238,812,856
Consumer and other deposits	12	2,733,270	746,010
Unspent conditional grants and receipts	13	68,183,713	26,270,482
Current portion of defined benefit plan obligation	14	465,000	629,000
Current portion of loans	15	961,265	976,958
		366,699,471	267,435,306
Non-Current Liabilities			
Trade and other payables	16	6,521,637	11,353,495
Defined benefit plan obligation	14	9,261,000	8,163,000
Non-current loans	15	3,630,271	4,496,406
		19,412,908	24,012,901
Total Liabilities		386,112,379	291,448,207
Net Assets			
Accumulated surplus		1,992,952,413	1,888,338,251
		1,992,952,411	1,888,338,251

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	38,914,392	33,564,204
Rental of facilities and equipment	18	181,560	98,102
Interest income	19	16,031,336	6,393,737
Other income	20	1,045,872	501,124
Total revenue from exchange transactions		56,173,160	40,557,167
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	674,142,769	655,386,201
Donations	22	5,450,000	1,067,219
Total revenue from non-exchange transactions		679,592,769	656,453,420
Total revenue		735,765,929	697,010,587
Expenditure			
Employee related costs	23	(178,339,599)	(166,906,311)
Remuneration of councillors	24	(9,309,464)	(8,924,978)
Depreciation, amortisation and impairment	25	(101,271,568)	(63,156,799)
Finance costs	26	(2,937,358)	(2,736,207)
Debt Impairment	27	(24,781,496)	(7,243,044)
Repairs and maintenance	28	(26,229,749)	(77,006,881)
Bulk purchases	29	(87,616,591)	(122,273,074)
Contracted services	30	(86,811,446)	(86,476,788)
General expenses	31	(113,854,498)	(138,678,025)
Total expenditure		(631,151,769)	(673,402,107)
Surplus for the year		104,614,160	23,608,480

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,832,993,236	1,832,993,236
Adjustments - Note 34	31,736,535	31,736,535
Correction of errors		
Balance at 1 July, 2018 as restated*	1,864,729,771	1,864,729,771
Changes in net assets		
Surplus for the year	23,608,480	23,608,480
Total changes	23,608,480	23,608,480
Restated* Balance at 1 July, 2019	1,888,338,251	1,888,338,251
Changes in net assets		
Surplus for the year	104,614,160	104,614,160
Total changes	104,614,160	104,614,160
Balance at 30 June, 2020	1,992,952,411	1,992,952,411

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Service charges		21,406,330	21,734,924
Grants	21	716,055,946	663,696,447
Interest income		4,785,097	6,402,358
Other receipts		631,432	599,226
		<u>742,878,805</u>	<u>692,432,955</u>
Payments			
Employee costs and remuneration of councillors		(184,211,716)	(167,158,495)
Suppliers		(292,564,752)	(361,839,659)
Finance costs		(1,395,228)	(2,033,724)
		<u>(478,171,696)</u>	<u>(531,031,878)</u>
Net cash flows from operating activities	32	<u>264,707,109</u>	<u>161,401,077</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(243,769,816)	(182,809,993)
Insurance proceeds from stolen property, plant and equipment	8	-	135,765
Purchase of other intangible assets	9	(35,580)	(66,138)
Net cash flows from investing activities		<u>(243,805,396)</u>	<u>(182,740,366)</u>
Cash flows from financing activities			
Repayments of non-current loans		<u>(858,722)</u>	<u>(851,724)</u>
Net increase/(decrease) in cash and cash equivalents		20,042,991	(22,191,013)
Cash and cash equivalents at the beginning of the year		40,140,071	62,331,085
Cash and cash equivalents at the end of the year	7	<u>60,183,062</u>	<u>40,140,072</u>

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	49,452,000	7,288,000	56,740,000	38,914,392	(17,825,608)	
Rental of facilities and equipment	100,000	75,000	175,000	181,560	6,560	
Interest earned - outstanding debtors	8,211,400	-	8,211,400	11,266,830	3,055,430	
Interest received - investment	6,000,000	-	6,000,000	4,764,506	(1,235,494)	
Other income	1,585,000	-	1,585,000	1,045,872	(539,128)	
Total revenue from exchange transactions	65,348,400	7,363,000	72,711,400	56,173,160	(16,538,240)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	721,256,000	45,217,950	766,473,950	674,142,769	(92,331,181)	
Public contributions and donations	-	-	-	5,450,000	5,450,000	
Fines, Penalties and Forfeits	500,000	(500,000)	-	-	-	
Total revenue from non-exchange transactions	721,756,000	44,717,950	766,473,950	679,592,769	(86,881,181)	
Total revenue	787,104,400	52,080,950	839,185,350	735,765,929	(103,419,421)	
Expenditure						
Employee Related Costs	(173,093,090)	(788,332)	(173,881,422)	(178,339,599)	(4,458,177)	
Remuneration of councillors	(9,856,350)	-	(9,856,350)	(9,309,464)	546,886	
Depreciation and amortisation	(41,992,000)	-	(41,992,000)	(101,271,568)	(59,279,568)	
Finance costs	(1,451,877)	-	(1,451,877)	(2,937,358)	(1,485,481)	
Debt Impairment	(20,283,400)	14,748,400	(5,535,000)	(24,781,496)	(19,246,496)	
Repairs and maintenance	(7,632,000)	(1,024,000)	(8,656,000)	(26,229,749)	(17,573,749)	
Bulk purchases	(129,099,000)	(4,644,018)	(133,743,018)	(87,616,591)	46,126,427	
Contracted Services	(59,724,500)	(23,397,738)	(83,122,238)	(86,811,446)	(3,689,208)	
General expenses	(56,161,237)	7,106,349	(49,054,888)	(113,854,498)	(64,799,610)	
Total operating expenditure	(499,293,454)	(7,999,339)	(507,292,793)	(631,151,769)	(123,858,976)	
Operating surplus	287,810,946	44,081,611	331,892,557	104,614,160	(227,278,397)	
Capital expenditure	(287,210,711)	(44,082,656)	(331,293,367)	(243,805,396)	87,487,971	
Deficit before taxation	600,235	(1,045)	599,190	(139,191,236)	(139,790,426)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	600,235	(1,045)	599,190	(139,191,236)	(139,790,426)	

Refer to appendix A for reasons of variances between budget and actual amounts presented.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<hr/>						
Figures in Rand						
<hr/>						
Reconciliation						
Basis difference						
Capital expenditure				(243,805,396)		
<hr/>						
Actual Amount in the Statement of Financial Performance						
				(382,996,632)		
<hr/>						

Refer to appendix A for reasons of variances between budget and actual amounts presented.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment of assets.

Defined benefit obligations for long service awards.

Useful lives and residual values of property, plant, and equipment.

Water and electricity losses.

Receivables from exchange and non-exchange transactions

The municipality assesses its receivables from exchange and non-exchange transactions for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from receivables.

Defined benefit obligations

Defined benefit obligations were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Defined benefit obligations

Allowance for doubtful debts

Impairment loss on receivables from exchange and non exchange transactions is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Not depreciated
Buildings	
• Residential dwellings	10 - 25 years
• Non residential dwellings	15 - 25 years
Infrastructure	
• Electricity	5 - 60 years
• Water	5 - 100 years
• Sewerage	10 - 40 years
• Airports	15 - 30 years
• Stormwater	30 - 80 years
• Capital works in progress	Not applicable
Other	
• Furniture and office equipment	5 - 10 years
• Computer equipment	3 - 5 years
• Transport assets	5 - 7 years
• Other machinery and equipment	5 - 15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 Intangible assets

Intangible assets are initially recognised at cost when they are identifiable.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average useful life
Computer software	5

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Loans payable	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectability of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Receivables from trade transactions

Receivables from exchange transactions are measured at amortised cost.

Payables from exchange transactions

Trade payables are measured at amortised cost.

Loans payable

Loans payable are measured at amortised cost

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at amortised cost.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Operating lease asset or liability is recognised as asset or liability in the statement of financial position.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Pension Obligations

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPF which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No.24 of 1973) and in accordance with the requirements of the Pension Fund Act,1956 Current contributions are charged against operating income on the basis of current service costs.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.15 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue comprises of electricity, water and sewer and is recognised based on consumption by consumers. Service revenue from prepaid electricity is recognised based on electricity purchase by consumers.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Non-exchange transactions are defined as transactions where the municipality receives value from another municipality without directly giving approximately equal value in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.18 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by a municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

"Unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of MFMA. and includes-

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c), (d) or (e) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure in relation to a municipality, means -

- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of MFMA, and which has not been condoned in terms of section 170 of that Act;
- expenditure incurred by a municipality in contravention of or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure"

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1.24 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory ;
- Losses on the disposal/impairment of non-current assets;
- Repairs and Maintenance - constitutes all costs of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk water and electricity;
- Contracted services – Includes all expenditure under long term contracts with suppliers except repairs and maintenance costs and bulk purchases as these are presented separately as material class of expenses. Further, legal costs are all presented under general expenses. Major costs included in contracted services are Consultancy fees, fleet management costs, IT services and system support, Communication costs, Cellular and data services and security services costs, Photocopies and office equipment rental and insurance.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several of all other expense items which are not individually significant.

1.26 Consumer deposits

Consumer deposits represents security held by the municipality in respect of new consumer accounts opened. Once application for connection of services are made consumers are required to pay a nominal fee which is recognised as a Consumer deposit.

Consumer deposits are recognised at their nominal or carrying value.

Upon closure of a consumer's account the deposit is subsequently refunded by the municipality to the consumer.

1.27 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2019 to 6/30/2020.

The budget presented is for the municipality itself.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.29 Related parties

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.31 Changes accounting estimates and judgements

The municipality makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assets Useful Lives

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

1.32 VAT

The Municipality is a registered VAT vendor and accounts for declaration and submission of VAT returns on a cash basis.

VAT as disclosed in the annual financial statements is prepared on the accrual basis.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	To be determined	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	To be determined	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	To be determined	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	1 April, 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	1 April, 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	1 April, 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	1 April, 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	1 April, 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	1 April, 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	1 April, 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	1 April, 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	1 April, 2020	Unlikely there will be a material impact

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
3. Inventories		
Materials-water pipes	107,422,788	107,422,788
Work in progress: VIP toilets	16,308,619	14,132,692
Water	1,893,879	1,614,945
Water and electricity meters	4,549,380	3,019,380
	<u>130,174,666</u>	<u>126,189,805</u>

Inventory is carried at the lower of its original cost and net replacement value.

During the 2019 financial year, water meters were impaired by R9 020 980.

During the 2019 financial year, VIP toilets amounting to R46,807,013 were completed and handed over to the community.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
4. Receivables from exchange Transactions		
Gross balances		
Electricity	9,859,652	11,738,278
Water	85,954,637	54,951,032
Sewerage	43,788,808	43,222,063
	<u>139,603,097</u>	<u>109,911,373</u>
Less:		
Allowance for impairment - Service charges	<u>(78,991,826)</u>	<u>(64,968,747)</u>
Net balance		
Receivables from exchange transactions	<u>60,611,271</u>	<u>44,474,724</u>

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
Summary of receivables by customer classification		
Residential		
Current (0 -30 days)	4,377,700	171,049
31 - 60 days	365,948	256,456
61 - 90 days	365,122	54,435
91 - 120 days	1,463,423	150,226
>120 days	75,053,460	61,912,624
	<hr/>	<hr/>
Less: Allowance for impairment	81,625,653	62,544,790
	<hr/>	<hr/>
	21,580,141	11,488,860
Commercial		
Current (0 -30 days)	3,199,883	6,828,425
31 - 60 days	98,129	1,962,501
61 - 90 days	110,101	384,632
91 - 120 days	777,571	787,559
>120 days	33,236,626	21,753,279
	<hr/>	<hr/>
Less: Allowance for impairment	37,422,310	31,716,396
	<hr/>	<hr/>
	18,475,996	17,803,579
National and provincial government		
Current (0 -30 days)	711,688	570,789
31 - 60 days	26,439	1,574,294
61 - 90 days	26,253	424,356
91 - 120 days	579,515	980,275
>120 days	19,211,240	8,434,547
	<hr/>	<hr/>
	20,555,135	11,984,261
Total		
Current (0 -30 days)	8,289,270	7,570,263
31 - 60 days	490,516	3,793,251
61 - 90 days	501,477	863,424
91 - 120 days	2,820,509	1,918,060
>120 days	127,501,325	95,773,274
	<hr/>	<hr/>
	139,603,097	109,918,272
Less: Allowance for impairment		
Current (0 -30 days)	(13,546)	-
31 - 90 days	(3,388)	-
91 - 120 days	(586,386)	(34,454)
>120 days	(78,388,547)	(64,934,293)
	<hr/>	<hr/>
	(78,991,867)	(64,968,747)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(64,968,747)	(60,090,193)
Contributions to allowance	(14,023,079)	(4,878,554)
	<hr/>	<hr/>
	(78,991,826)	(64,968,747)

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
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Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June, 2020, R 991,993 (2019: R 4,656,675) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	490,516	3,793,251
2 months past due	501,477	863,424

5. Other receivables from exchange transactions

Prepayments	8,014,521	8,382,165
Employee debtors	148,745	184,977
Interest receivable	86,911	107,502
Creditors with debit balances	1,790,671	524,919
Other receivables	482,067	49,686
Allowance for impairment	(7,900,000)	-
	2,622,915	9,249,249

Employee debtors relates to overpayment on employees for travel allowance and payment to former Municipal manager after his contract had ended.

Allowance for impairment relates to prepayment that was paid long back and no progress in receiving the goods paid for.

6. VAT receivable

VAT	34,047,067	15,858,244
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The VAT receivable balance is comprised of:

Input VAT claimed through VAT 201 returns	18,137,103	4,918,702
Undeclared VAT output	(15,450,576)	(12,391,840)
Undeclared VAT input	31,360,540	23,331,381
	34,047,067	15,858,243

VAT is payable on the payment basis. VAT is only submitted to SARS only once payment has been made to suppliers and money when money has been received from debtors.

VAT as disclosed in the annual financial statements is prepared on the accrual basis.

There were no late payments to SARS in the current year.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,495	1,244
Bank balances	58,995,652	39,009,424
Call account balances	1,184,915	1,129,403
	60,183,062	40,140,071

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020			2019 Restated*								
The municipality had the following bank accounts												
Account number / description												
	Bank statement balances			Cash book balances								
	30 June, 2020	30 June, 2019	30 June, 2018	30 June, 2020	30 June, 2019	30 June, 2018						
First National Bank -Demand deposit - 62092993809	713,399	684,169	651,178	713,399	684,169	651,178						
First National Bank -Demand deposit - 62027696478	104,292	101,036	97,969	104,292	101,036	97,969						
First National Bank -Primary Account: 62026865321	9,644,035	22,561,976	52,367,266	9,644,035	22,561,976	52,367,266						
ABSA Bank - 40-5310-7423	49,247,325	15,687,865	8,124,072	49,247,325	15,687,865	8,124,072						
Ithala Bank -Club Account 23247671	-	658,547	636,685	-	658,547	636,685						
ABSA Bank -Call Account - 91-1531-5268	436,245	410,710	385,390	436,245	410,710	385,390						
First National Bank -Money Market Account -62263733258	32,157	31,561	30,185	32,157	31,561	30,185						
First National Bank -Business Call Account -62309788498	3,114	2,963	2,803	3,114	2,963	2,803						
Cash on hand	-	-	-	2,495	1,244	35,537						
Total	60,180,567	40,138,827	62,295,548	60,183,062	40,140,071	62,331,085						

The municipality does not hold any restricted cash and can freely realise the available balances.

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2020			2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1,157,250	-	1,157,250	1,157,250	-	1,157,250
Buildings	62,306,832	(20,444,222)	41,862,610	62,306,832	(18,261,662)	44,045,170
Infrastructure	2,350,659,281	(326,573,186)	2,024,086,095	2,123,684,363	(244,813,522)	1,878,870,841
Other property, plant and equipment	54,907,745	(31,269,113)	23,638,632	46,362,881	(27,288,899)	19,073,982
Total	2,469,031,108	(378,286,521)	2,090,744,587	2,233,511,326	(290,364,083)	1,943,147,243

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Donations received	Depreciation	Impairment loss	Write off	Closing balance
Land	1,157,250	-	-	-	-	-	1,157,250
Buildings	44,045,170	-	-	(2,182,560)	-	-	41,862,610
Infrastructure	1,878,870,841	239,364,591	-	(49,171,820)	(33,921,322)	(11,056,195)	2,024,086,095
Other property, plant and equipment	19,073,982	4,405,225	5,450,000	(4,741,988)	-	(548,587)	23,638,632
Total	1,943,147,243	243,769,816	5,450,000	(56,096,368)	(33,921,322)	(11,604,782)	2,090,744,587

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Donations	Depreciation	Impairment loss	Write off	Closing balance
Land	1,157,250	-	-	-	-	-	1,157,250
Buildings	50,944,412	-	-	(2,199,813)	(8,078)	(4,691,351)	44,045,170
Infrastructure	1,754,631,720	174,829,479	1,067,219	(39,283,233)	(326,049)	(12,048,295)	1,878,870,841
Other property, plant and equipment	15,711,849	7,980,514	-	(4,009,900)	-	(608,481)	19,073,982
Total	1,822,445,231	182,809,993	1,067,219	(45,492,946)	(334,127)	(17,348,127)	1,943,147,243

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
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There were no assets pledged as security during the year.

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	499,194,524	493,074,102
Additions/capital expenditure	239,364,591	246,369,276
Transferred to completed items	(98,315,439)	(98,315,439)
	640,243,676	641,127,939

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Buildings	Total
Opening balance	600,276,999	4,691,351	604,968,350
Additions/capital expenditure	174,829,479	-	177,544,800
Transferred to completed items	(269,674,111)	-	(266,581,826)
Projects written off	(12,045,449)	(4,691,351)	(16,736,800)
	493,386,918	-	499,194,524

Expenditure incurred to repair and maintain property, plant and equipment

Refer to note 28 for details of expenditure to repair and maintain property plant, and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

9. Intangible assets

	2020			2019		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	435,206	(339,982)	95,224	399,626	(258,504)	141,122

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Closing balance
Computer software	141,122	35,580	(81,478)	95,224

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Closing balance
Computer software	192,350	66,138	(117,366)	141,122

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Heritage assets

	2020			2019		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586,000	-	586,000	586,000	-	586,000

Reconciliation of heritage assets 2020

	Opening balance	Closing balance
Mayoral regalia	586,000	586,000

Reconciliation of heritage assets 2019

	Opening balance	Closing balance
Mayoral regalia	586,000	586,000

Deemed costs

The deemed cost of the mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
11. Payables from exchange transactions		
Trade creditors	238,421,936	190,137,879
Other payables- Umhlosinga	8,966,080	9,232,055
Debtor prepayments	4,228,389	3,677,817
Employee related deductions and suspense accounts	6,894,739	5,812,151
Accruals for 13th cheque payments	4,253,921	3,988,744
Accruals for leave pay	16,750,665	14,661,083
Retentions	14,840,493	11,303,127
	294,356,223	238,812,856
12. Consumer and other deposits		
Deposits	2,733,270	746,010
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
ACIP Grant	4,695	4,695
Disaster Management Grant	9,119	9,119
Environmental Management Grant	206,984	206,984
Kwadapha	578,891	578,891
Kwazibi National Lottery Grant	122,667	122,667
Lake Tete	81,301	81,301
Mabibi National Lottery Grant	166,667	166,667
Mqobela National Lottery Grant	166,666	166,666
Municipal Infrastructure Grant	55,994,313	-
Ndumo Learners Shelter Grant	9,441,505	9,441,505
Nyezi Community HIV Centre	303,570	303,570
PIMMS/ NDT Operational Grant	300	300
Public Participation Customer Satisfaction Survey	39,000	39,000
Rural Road & Transport Management Grant	2,424	905
Water Services infrastructure Grant	1	14,082,656
Waste Management Grant	145,566	145,566
Umkhombe Tours	908,690	908,690
Councillors Training Grant	11,300	11,300
Financial management grant	54	-
	68,183,713	26,270,482

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

14. Defined definition plan obligation

Reconciliation of defined benefit obligation - 30 June 2020

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards provision	8,792,000	857,000	852,000	(739,273)	(35,727)	9,726,000

Reconciliation of defined benefit obligation 30 June 2019

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial losses	Closing balance
Long service awards provision	8,323,000	855,000	843,000	(1,474,315)	245,315	8,792,000

Defined benefit plan obligation disclosed in the Statement of Financial Position as:

Non-current liabilities	9,261,000	8,163,000
Current liabilities	465,000	629,000
	9,726,000	8,792,000

Long service awards

Membership Data

As at 30 June 2020, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Weighted Average (Years)
Male	217	53.07	9.28
Female	114	42.62	10.82
Total	331	50.35	9.68.

Long service awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. Awarded leave days are converted to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 30 June 2020 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. It is further assumed that the current policy for awarding long service awards remains unchanged in the future.

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service benefit awards (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	(10/250)*Annual salary
15	8%	(20/250)*Annual salary
20,25,30,35,40 and 45	12%	(30/250)*Annual salary

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2020	Assumed value 30 June 2019
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve** CPI + 1%	Difference between nominal and real yield curve** CPI + 1%
Normal salary increase		
Net Effective Discount Rate	Yield Curve Based 63 SA 85-90	Yield Curve Based 63 SA 85-90
Average retirement age for all active employees		
Mortality before retirement		
The table below sets out the assumed rates of withdrawal from services:		
Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 - 59	1%	1%
Age 60+	0%	0%.
Valuation of assets		
As at the valuation date, the long service leave liability award of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.		
Amounts recognised in the Statement of Financial Position		
Accrued defined benefit obligation	<u>9,726,000</u>	<u>8,792,000</u>
Reconciliation of accrued defined benefit obligations:		
Long service leave awards	Current valuation date 30 June 2020	Preceding valuation date 30 June 2019
Accrued liability as at preceding valuation date	8,792,000	8,323,000
Current service cost	857,000	855,000
Interest cost	852,000	843,000
Benefits paid	(739,273)	(1,474,315)
Actuarial (gains)/losses	(35,727)	245,315
Balance at end of year	<u>9,726,000</u>	<u>8,792,000</u>
Net amounts recognised in Statement of Financial Performance		
Current service cost	857,000	855,000
Interest cost	852,000	843,000
Benefits paid	(739,273)	(1,474,315)
Actuarial gains	(35,727)	245,315
	<u>934,000</u>	<u>469,000</u>

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
15. Loans		
Non-current portion of borrowings	3,630,271	4,496,406
Current portion of borrowings	961,265	976,958
	4,591,537	5,473,364

DBSA

The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:

Loan 61000800, fixed interest rate at 6.75%

Loan 61000191, semi- floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).

Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.

16. Long term Trade and other payables

At amortised cost

Trade and other payables	6,521,637	11,353,495
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Barzani Development (Pty) Ltd

During the 2018 financial year, the municipality entered into a settlement agreement with Barzani Development (Pty) Ltd in which the amount of R 32,429,598 owing to Barzani will be repaid in 36 equal monthly installments. In the prior year, the amount of R11,353,495 is payable after 12 months and was reclassified from current liabilities to non current liabilities and the balance of R11,772,845 (2019) and R11,353,495 (2020) is included in trade and other payables as current liabilities (Refer to note 11). The full amount carries an effective interest of 5%.

WSSA

During the 2020 financial year, the municipality entered into a settlement agreement with WSSA for the amount owing after court ruled in favour of the later. The amount is payable in variable capital repayments, at 5% interest for the first five months from January 2020 to 31 May 2020, thereafter 8% for 13 months. An amount of R6,521,637 in the current financial year is payable after 12 months and was reclassified from current liabilities to non current liabilities and the balance of R19,641,762 is included in trade and other payables as current liabilities (Refer to note 11).

17. Service charges

Sale of electricity	4,603,847	5,342,366
Sale of water	33,832,704	27,704,401
Sewerage and sanitation charges	477,841	517,437
Total Service Charges	38,914,392	33,564,204

18. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	181,560	98,102
	181,560	98,102

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
19. Interest income		
Investments	4,708,385	5,840,511
Interest charged on trade and other receivables	11,266,830	-
Other bank balances	56,121	553,226
	16,031,336	6,393,737
20. Other income		
License fee	20,000	-
Connection fees	52,340	63,425
Bad debts recovered	-	27,277
Sale of tender documents	-	67,565
Insurance income	596,000	-
Commission	90,792	73,207
Refund from SETA	286,740	269,650
	1,045,872	501,124

Insurance income received relates to income received in the current year for truck that was burnt in 2019 financial year. The truck was written off expense when it was burnt as there was uncertainty whether any income would be received from the insurance. Total write off loss in 2019 financial year was R366,935.

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
21. Government grants and subsidies		
Operating grants		
Equitable share	412,178,000	373,672,447
Public Participation & Customer Satisfaction Survey Grant	-	115,000
Finance Management Grant	1,464,946	1,000,000
Massification Grant	-	4,172,492
Expanded Public Works Programme	4,674,000	3,022,000
Lake Tete	-	185,700
Environmental Management Grant	-	198,617
Rural Road and Transport Management Grant	2,778,481	2,623,095
Ingwavuma Prison and Electrical Upgrade	-	101,506
Ngodini boarder curve Grant	-	1,000,000
	421,095,427	386,090,857
Capital grants		
Municipal infrastructure Grant	158,964,687	210,378,000
Water Services Infrastructure Grant	94,082,655	58,917,344
	253,047,342	269,295,344
	674,142,769	655,386,201
Total grants receipts		
Unconditional grants received	412,178,000	373,672,447
Conditional grants received	303,877,946	290,024,000
	716,055,946	663,696,447
Public Participation & Customer Satisfaction Survey Grant		
Balance unspent at beginning of year	39,000	154,000
Conditions met - transferred to revenue	-	(115,000)
	39,000	39,000
Conditions still to be met - remain liabilities (see note 13).		
PIMMS / NDT Operational Grant		
Balance unspent at beginning of year	300	300
Conditions still to be met - remain liabilities (see note 13).		
Finance Management Grant		
Current-year receipts	1,465,000	1,000,000
Conditions met - transferred to revenue	(1,464,946)	(1,000,000)
	54	-
Conditions still to be met - remain liabilities (see note 13).		
Massification Grant		
Balance unspent at beginning of year	-	4,172,492
Conditions met - transferred to revenue	-	(4,172,492)
	-	-

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
Kwazibi National Lottery Grant		
Balance unspent at beginning of year	122,667	122,667
Conditions still to be met - remain liabilities (see note 13).		
Mqobela National Lottery Grant		
Balance unspent at beginning of year	166,666	166,666
Conditions still to be met - remain liabilities (see note 13).		
Mabibi National Lottery Grant		
Balance unspent at beginning of year	166,667	166,667
Conditions still to be met - remain liabilities (see note 13).		
Disaster Management Grant		
Balance unspent at beginning of year	9,119	9,119
Conditions still to be met - remain liabilities (see note 13).		
Municipal infrastructure Grant		
Current-year receipts	214,959,000	210,378,000
Conditions met - transferred to revenue	(158,964,687)	(210,378,000)
	55,994,313	-
Conditions still to be met - remain liabilities (see note 13).		
Expanded Public Works Programme		
Current-year receipts	4,674,000	3,022,000
Conditions met - transferred to revenue	(4,674,000)	(3,022,000)
	-	-
Lake Tete Grant		
Balance unspent at beginning of year	81,301	267,001
Conditions met - transferred to revenue	-	(185,700)
	81,301	81,301
Conditions still to be met - remain liabilities (see note 13).		
Kwadapha Grant		
Balance unspent at beginning of year	578,891	578,891
Conditions still to be met - remain liabilities (see note 13).		
Nyezi Community HIV Centre Grant		
Balance unspent at beginning of year	303,570	303,570

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
Conditions still to be met - remain liabilities (see note 13).		
Umkhombe Tours Grant		
Balance unspent at beginning of year	908,690	908,690
Conditions still to be met - remain liabilities (see note 13).		
Waste Management Grant		
Balance unspent at beginning of year	145,565	145,565
Conditions still to be met - remain liabilities (see note 13).		
Environmental Management Grant		
Balance unspent at beginning of year	206,984	405,600
Conditions met - transferred to revenue	-	(198,616)
	206,984	206,984
Conditions still to be met - remain liabilities (see note 13).		
Rural Road & Transport Management Grant		
Balance unspent at beginning of year	905	89,447
Current-year receipts	2,780,000	2,624,000
Conditions met - transferred to revenue	(2,778,481)	(2,623,095)
Other	-	(89,447)
	2,424	905
Conditions still to be met - remain liabilities (see note 13).		
Ndumo Learners Shelter Grant		
Balance unspent at beginning of year	9,441,505	9,441,505
Conditions still to be met - remain liabilities (see note 13).		
Councillors Training Grant		
Balance unspent at beginning of year	11,300	11,300
Conditions still to be met - remain liabilities (see note 13).		
Ingwavuma Prison Electrical Upgrade		
Balance unspent at beginning of year	-	101,506
Conditions met - transferred to revenue	-	(101,506)
	-	-
ACIP Grant		
Balance unspent at beginning of year	4,695	4,695
Conditions still to be met - remain liabilities (see note 13).		

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
Water Service Infrastructure Grant		
Balance unspent at beginning of year	14,082,656	-
Current-year receipts	80,000,000	73,000,000
Conditions met - transferred to revenue	(94,082,656)	(58,917,344)
	<hr/>	<hr/>
	-	14,082,656
Ngodini Boarder Cave Grant		
Balance unspent at beginning of year	-	1,000,000
Conditions met - transferred to revenue	-	(1,000,000)
	<hr/>	<hr/>
	-	-
EDTEA Grant		
Balance unspent at beginning of year	-	6,880,747
Grants transferred to Umhlosiinga Development Agency	-	(6,880,747)
	<hr/>	<hr/>
	-	-
Equitable Share		
In terms of the Section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it.		
The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.		
22. Donations		
Donations income	5,450,000	1,067,219

The municipality received trucks and plant and machinery in 2020 financial year and water infrastructure assets during the prior year from COGTA.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
23. Employee related costs		
Basic salaries and wages	122,510,219	117,924,384
Bonus	8,666,312	7,151,534
Contributions to pensions, medical aids and UIF and other allowances	27,161,816	24,264,637
Travel, motor car, subsistence and other allowances	10,372,787	9,136,662
Housing benefits and allowances	1,930,796	1,628,512
Overtime payments	5,223,562	3,801,269
Leave expense	2,474,107	2,999,313
	178,339,599	166,906,311
Remuneration of Municipal Manager		
Annual Remuneration	1,043,371	1,242,218
Travel, housing and other allowances	335,498	127,773
Reimbursement of KM	151,795	-
Contributions to UIF, Medical and Pension Funds	14,681	100,130
	1,545,345	1,470,121
Remuneration of Chief Finance Officer		
Annual Remuneration	836,882	1,057,763
Travel, housing and other allowances	272,987	374,197
Contributions to UIF, Medical and Pension Funds	11,070	-
	1,120,939	1,431,960
During the 2020 financial year, the Chief Financial Officer(CFO) was suspended and and three people acted on his position consecutively.		
Remuneration of General Manager - Corporate Service		
Annual Remuneration	785,491	894,934
Travel, housing and other allowances	440,610	440,610
Reimbursement of KM	34,383	-
Contributions to UIF, Medical and Pension Funds	11,956	93,750
	1,272,440	1,429,294
Remuneration of General Manager - Community Services and Planning & Economic Development		
Annual Remuneration	677,549	725,223
Travel, housing and other allowances	240,052	335,716
Reimbursement of KM	55,418	-
Contributions to UIF, Medical and Pension Funds	9,698	190,979
	982,717	1,251,918
Remuneration of General Manager - Technical Services		
Annual Remuneration	88,583	730,806
Travel, housing and other allowances	74,778	159,242
Contributions to UIF, Medical and Pension Funds	753	6,802
	164,114	896,850

The General Manager for Technical Services resigned during the 2019 financial year and an Acting General manager was appointed. In May 2020, the General Manager for Technical Services was appointed.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
24. Remuneration of councillors		
Mayor	906,470	907,347
Deputy Mayor	835,720	835,135
Speaker	815,867	771,821
Executive Committee Members	2,267,005	1,744,790
Councillors	4,484,402	4,665,885
	9,309,464	8,924,978

Mayor		
Mayoral allowance	718,711	718,711
Travel allowance	140,760	140,760
Cellphone allowance	40,800	40,800
Contributions to UIF, Medical and Pension Funds 7,076	6,199	7,076
	906,470	907,347

Deputy Mayor		
Annual remuneration	574,967	574,967
Travel allowance	112,608	112,608
Cellphone allowance	40,800	40,800
Contributions to UIF, Medical and Pension Funds 7,076	5,126	-
Reimbursive of travel km	102,219	106,760
	835,720	835,135

Speaker		
Annual remuneration	574,967	574,967
Travel allowance	112,608	112,608
Cellphone allowance	40,800	40,800
Contributions to UIF, Medical and Pension Funds 7,076	5,863	-
Reimbursive of travel km	81,630	43,446
	815,868	771,821

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time.

The Mayor, Deputy Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.

All Councillors are re-imbursed for kilometres travelled on official duties with the exception of the Mayor.

The Mayor, Deputy Mayor and Speaker have the use of Council owned vehicle for official duties.

The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.

25. Depreciation, amortisation and impairment

Property, plant and equipment	56,096,368	45,492,945
Intangible assets	81,477	117,366
Impairment of property plant and equipment	33,921,322	334,127
Write off of property plant and equipment	11,172,401	17,212,361
	101,271,568	63,156,799

Write off loss as per income statement is shown net of proceeds from insurance of R432,381 (2019FY R135,765) for items of property, plant and equipment damaged/stolen. Refer to note 8 for full loss incurred.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
26. Finance costs		
Trade and other payables	2,513,488	2,231,128
Loans	423,870	505,079
	2,937,358	2,736,207
27. Debt impairment		
Allowance for impairment	21,923,079	4,878,554
Bad debts written off	2,858,417	2,364,490
	24,781,496	7,243,044
Current year allowance for impairment includes R7,900,000 for other receivables. Refer to note 5		
28. Repairs and Maintenance		
Expenditure on repairs and maintenance comprised the following:		
Electricity infrastructure	743,259	2,789,619
Furniture and equipment	172,850	579,298
Buildings	-	642,381
Water distribution and sanitation infrastructure	25,313,640	72,995,583
	26,229,749	77,006,881
29. Bulk purchases		
Electricity	19,015,915	15,680,423
Water	68,600,676	106,592,651
	87,616,591	122,273,074
30. Contracted services		
Contracted services	86,811,446	86,476,788
Contracted services consists of:		
Financial consulting	10,862,572	13,568,635
Technical consulting	5,415,851	-
Fleet Services	23,754,553	22,974,268
Legal fees	16,708,429	24,092,912
Photocopies and office equipment rental	1,195,836	1,071,620
Insurance	2,079,523	1,290,218
Cellular and data services	2,623,069	2,621,700
IT services and system support	238,739	1,426,305
Internal audit services	3,561,758	1,900,174
Communication	1,602,948	1,124,383
Security services	18,760,515	16,397,958
Other services	7,653	8,615
	86,811,446	86,476,788

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
31. General expenses		
Accommodation	3,659,338	1,366,169
Advertising	332,919	1,587,498
Audit Fees	3,983,534	3,456,252
Audit committee fees	246,683	297,315
Bank charges	132,865	136,466
Community and Social services	1,088,780	1,858,645
Community development and training	450,018	439,547
Compensation fund	-	586,803
Conference and seminars	34,900	133,408
Consumables and spare parts	666,101	-
Court litigation expenses**	37,743,808	5,700,000
Electricity expenses	39,519,518	34,681,736
Events Organisation and catering	3,828,955	1,741,268
Fuel and oil	5,250	20,000
Grants & donations - Umhlosanga Development Agency	7,100,000	12,605,692
Inventory losses	-	9,020,980
Licences	1,661,426	393,967
Medical expenses	-	153,570
Meter reading and installation costs	-	4,638,379
Municipal Health	24,725	189,052
Other expenses	2,400	18,047
Printing, stationery and cleaning materials	1,224,634	1,152,588
Professional and consulting fees	845,552	1,754,782
Publicity	3,529,121	1,240,703
Rural Transport Management	2,416,070	2,122,543
Sports DC27	4,054,384	4,440,411
Staff programs and functions	-	8,500
Systems Support and IT expenses	223,917	39,409
Tourism Projects	567,933	1,034,130
Training	27,938	832,133
Uniforms and protective clothing	483,729	221,019
VIP toilets handed over to the community*	-	46,807,013
	113,854,498	138,678,025

*VIP toilets of R46,807,013 in the prior financial year relates to completed toilets that were handed over to the community and was expensed from inventory. Refer to note 3.

**Court litigation expenses in the current year comprises of payments to supplier in connection of court cases that were lost by the municipality in the current year, most of which were included under contingent liabilities in prior years.

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

	2020	2019 Restated*
32. Cash generated from operations		
Surplus	104,614,160	23,608,480
Adjustments for:		
Depreciation, amortisation, impairment and write off	101,271,568	63,156,799
Debt impairment	24,781,496	7,243,044
Movements in provisions	934,000	469,000
Insurance payout receivable (loss of stolen car)	432,381	-
Donations received in kind	(5,450,000)	(1,067,219)
Changes in working capital:		
Inventories	(3,984,861)	34,613,022
Receivables from exchange transactions	(33,018,043)	(11,829,279)
Other receivables from exchange transactions	(1,273,666)	677,143
Movement in interest on loan accrual	(23,102)	(16,969)
Payables from exchange transactions	55,543,367	49,984,405
VAT	(18,188,824)	4,370,419
Unspent conditional grants and receipts	41,913,231	1,340,052
Consumer deposits	1,987,260	(346,919)
Movement in long term payables	(4,831,858)	(10,800,901)
	264,707,109	161,401,077

* See Note 34 & 33

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

33. Prior period errors

Error 1

Payables from exchange transaction were overstated in prior years due to amounts that were raised on the system and suppliers could not prove that we owe them such amounts and some could not be traced. The full amount written off against accumulated surplus amounted to R36,865,770.

Employee related payables were overstated due to R12,859 that was overpaid to an employee as travel claim. The adjustment resulted in decrease in employee costs and decrease in payables (employee related expenses). Remuneration of councillors was also overstated in the prior year by R4,494 and this was corrected retrospectively.

Consumer deposits allocations to the value of R925,457 were incorrectly mapped to trade and other payables. This was adjusted retrospectively by mapping the account to consumer deposits.

Some invoices for property, plant and equipment amounting to R3,405,100; repairs and maintenance of R1,203,731; bulk purchases of R12,489,115 contracted services of R1,255,592 and general expenses of R2,438,707 were incorrectly not accrued for by the year end.

Legal fees were incorrectly classified under general expenses, however these are contracted expenses and this was corrected retrospectively by mapping the adjusted legal costs totalling R24,092,912 to contracted services.

The correction of the error(s) results in adjustments as follows:

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
Statement of financial position		
Increase in property plant and equipment	-	3,405,100
Increase in opening accumulated surplus	-	(36,865,770)
Decrease in payables from exchange transactions	-	12,125,760
Increase in VAT receivable	-	3,039,660
Decrease in consumer deposits	-	925,457
	<hr/>	<hr/>
	-	(17,369,793)
Statement of financial performance		
Decrease in employee costs- travel adjustment	-	(12,859)
Decrease in remuneration of councillors	-	(4,494)
Increase in repair and maintenance	-	1,203,731
Increase in Bulk purchases: water	-	12,489,115
Increase in contracted Services	-	25,348,504
Decrease in general expenses	-	(21,654,205)
	<hr/>	<hr/>
	-	17,369,792
Repairs and maintenance		
Repair and maintenance- Sanitation	-	(322,571)
Repair and maintenance- DC Data	-	(4,565)
Repair and maintenance- Water distribution infrastructure	-	1,530,867
	<hr/>	<hr/>
	-	1,203,731
Contracted services		
communication	-	(172,963)
Fleet services	-	1,368,210
IT services and system support	-	(27,826)
Financial consulting	-	88,171
	<hr/>	<hr/>
	-	1,255,592
Legal fees (mapping error)***	-	24,092,912
Total error	-	25,348,504
<hr/>	<hr/>	<hr/>
General expenses		
General expenses- meter reading	-	2,375,890
Accommodation	-	77,330
Legal fees	-	7,540
Other expenses	-	(26,957)
External audit fees	-	8,413
Systems support and IT expenses	-	(24,229)
Publicity	-	1,500
Municipal health	-	(6,000)
Community and social services	-	5,224
Advertising	-	(4)
Fuel and oil	-	20,000
	<hr/>	<hr/>
	-	2,438,707
Legal fees (mapping error)***	-	(24,092,912)
Total error	-	(21,654,205)
<hr/>	<hr/>	<hr/>

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

***The mapping error of legal fees adjustment of R24,092,912 is disclosed after correcting prior period error of R7,540 for legal fees that were understated by this figure in prior period.

Error 2

During the prior year, receivables from exchange transactions were overstated by WSSA debtors that were included totalling R4,661,334, however no more receivables were due from WSSA. Further, a debtor payment of R100,242 (R99,975 for electricity and R267 for water) was erroneously recorded as grant income in the prior year. The error was corrected by reducing receivables and reducing unspent grants by the full amount in error.

Further, debtors written off in 2018 were misstated by R467,901 due to some customers that were not written off in full, resulting in overstatement of debtors and opening accumulated surplus in prior year.

Employee related deductions were not adjusted for in the cash flow statement to reflect amounts actually paid in cash. Also cash receipts from customers included the adjustment for other receivables, however these receivables do not affect service charges and this was corrected retrospectively.

The effect of the adjustments is as follows.

Statement of financial position

Decrease in receivables from exchange transactions	-	(5,229,477)
Increase in unspent conditional grants and receipts	-	100,242
Decrease in opening accumulated surplus	-	5,129,235
	-	-

34. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position - Extract

2019

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions	4	49,704,202	(5,229,477)	44,474,725
VAT receivable	6	12,818,584	3,039,660	15,858,244
Property plant and equipment	8	1,939,742,144	3,405,099	1,943,147,243
Payables from exchange transactions	11	(250,938,616)	12,125,761	(238,812,855)
Consumer and other deposits	12	(1,671,466)	925,457	(746,009)
Unspent conditional grants and receipts	13	(26,370,725)	100,243	(26,270,482)
Accumulated surplus		(1,873,971,508)	(14,366,743)	(1,888,338,251)
		<u>(150,687,385)</u>	<u>-</u>	<u>(150,687,385)</u>

Statement of financial performance - Extract

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Employee related costs	23	(166,919,170)	12,859	-	(166,906,311)
Remuneration of councillors	24	(8,929,472)	4,494	-	(8,924,978)
Repairs and Maintenance	28	(75,803,150)	(1,203,731)	-	(77,006,881)
Bulk purchases	29	(109,783,960)	(12,489,115)	-	(122,273,075)
Contracted services	30	(61,128,283)	(1,255,593)	(24,092,912)	(86,476,788)
General expenditure	31	(160,332,231)	(2,438,706)	24,092,912	(138,678,025)
Surplus for the year		<u>(582,896,266)</u>	<u>(17,369,792)</u>	<u>-</u>	<u>(600,266,058)</u>

Cash flow statement- Extract

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2019		
Service charges	As previously reported	Correction of error
Grants receipts	22,311,825	(576,901)
Employee costs and remuneration of councillors	663,796,689	(100,242)
Payment to suppliers	(175,848,643)	8,690,148
Purchase of property, plant and equipment	(357,231,756)	(4,607,904)
	(179,404,892)	(3,405,101)
	(26,376,777)	-
		(26,376,777)

35. Unauthorised expenditure

Opening balance as previously reported	377,749,634	269,559,626
Add: Unauthorised expenditure- Current year	51,001,226	108,190,008
Closing balance	428,750,860	377,749,634

Unauthorised expenditure in the current financial year was incurred as a result of expenditure which exceeded the approved budget.

36. Fruitless and wasteful expenditure

Opening balance as previously reported	79,573,998	47,056,788
Add: Fruitless and wasteful expenditure current year	1,497,615	32,517,210
Closing balance	81,071,613	79,573,998

Fruitless and wasteful expenditure comprise of interest and penalties relating to SARS EMP declarations and late payment of creditors, payments to employees whose contracts had ended and payments for cancellation of contracts for service providers.

Fruitless expenditure also includes infrastructure expenditure that was incurred in prior years but could not be identified where the work was done R16 736 801 (refer to note 8) and inventory that was written off as impairment in prior year of R9,020,980.

37. Irregular expenditure

Opening balance	2,328,925,446	1,834,587,834
Add: Irregular Expenditure - prior year contracts	388,668,081	412,638,464
Add: Irregular Expenditure - current year contracts	80,145,888	81,699,148
Add: Irregular Expenditure - from quotations	5,508,953	-
Closing balance	2,803,248,368	2,328,925,446

No disciplinary actions or criminal proceedings was instituted as a result of irregular expenditure incurred.

38. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	268,817	197,200
Current year fees	4,592,259	3,970,604
Amount paid - current year	(4,562,153)	(3,701,787)
Amount paid - previous years	(268,817)	(197,200)
	30,106	268,817

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
PAYE and UIF		
Opening balance	2,122,400	-
Current year subscription / fee	27,612,515	26,830,209
Amount paid - current year	(25,206,587)	(24,707,809)
Amount paid - previous years	(2,122,400)	-
	<u>2,405,928</u>	<u>2,122,400</u>
Pension and Medical Aid Deductions		
Opening balance	3,065,919	-
Current year subscription / fee	38,893,359	35,166,746
Amount paid - current year	(35,475,382)	(32,100,827)
Amount paid - previous years	(3,065,919)	-
	<u>3,417,977</u>	<u>3,065,919</u>
SALGA Fees		
Fees paid	<u>1,773,392</u>	<u>1,505,600</u>
VAT		
VAT receivable	<u>34,047,067</u>	<u>15,858,244</u>

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2020:

30 June, 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Moodley GP	-	232,534	232,534
Zungu MC	-	36,510	36,510
Gina MA	-	1,840	1,840
	<hr/>	<hr/>	<hr/>
	-	270,884	270,884

30 June, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Moodley GP	-	220,191	220,191
Zungu MC	-	34,223	34,223
Gina MA	-	1,563	1,563
	<hr/>	<hr/>	<hr/>
	-	255,977	255,977

39. Commitments

Commitments in respect of capital expenditure

Approved and contracted for

• Infrastructure	472,295,156	369,572,442
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Total capital commitments

Approved and contracted for	472,295,156	369,572,442
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Capital commitments were financed through:

Government grants	472,295,156	369,572,442
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Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	92,217	97,652
- in second to fifth year inclusive	209,583	-
	<hr/>	<hr/>
	301,800	97,652

The municipality's operating lease commitments comprised as follows:

Operating lease payments represent rentals payable by the municipality for the office equipment. The municipality's contract for photocopier machines came to an end in 2020 financial year and a new service provider was appointed:

Old lease terms

Leases was for a period of three (3) years with no contingent rentals payable. Lease rentals are charged at a fixed amount with 15% acceleration rate annually and the agreement came to an end as of 30 June 2020. Expenditure on lease rentals paid have been recognised on a straight-line basis in the Statement of Financial Performance.

New lease terms

Leases are contracted for a period of three (3) years with no contingent rentals payable. Lease rentals are charged at a fixed amount of R100,600(2020: 15% acceleration rate annually). The agreement only started post year end.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

40. Contingencies

Supplier disagreements

As at 30 June 2020, the municipality had pending court cases with suppliers. Refer to the table below for details:

Supplier name and details of the case	Amount claimed
Mageba: The supplier claims that they did engineering consulting services which the municipality disputes	4,124,993
Makhetha Development: Cancellation of Agreement	2,952,979
Begin Africa Services : Unpaid invoices for water assessment services	1,855,559
Thoga Beach Lodge: Outstanding payment in respect of services rendered.	1,395,058
New Height cc: Cancellation of contract	2,000,000
Nxumalo & Partners: Investigation service rendered	22,597,500
Ziqoqe Construction: Recovery of service rendered	2,850,973
Duyaza Construction: Cancellation of contract	4,829,429
Various other small cases	1,075,532
	43,682,023

41. Related parties

Related party

Umhlosinga Development Agency

Umhlosinga Development Agency is a municipal entity under the control of Umkhanyakude District Municipality to spearhead the economic development within the district.

Related party balances

Payables - Owing to related parties

Umhlosinga Development Agency	8,383,468	9,232,055
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Related party transactions

Expenditure incurred and Transfers paid to related parties

Umhlosinga Development Agency: Expenditure incurred	8,385,975	12,605,692
Umhlosinga Development Agency: Transfers paid	8,085,975	12,666,859

Key management information

Refer to note 23 and note 24 for remuneration of key management.

42. Change in estimate

Property, plant and equipment

During the current year, management revised the useful life of some items of plant and equipment. The effect of this revision resulted in the decrease in depreciation charges for the current and future periods by R 7,907,371

43. Events after the reporting date

The municipality was not aware of any material events that may have occurred between 30 June 2020 and the date when the annual financial statements were authorised.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

44. Risk management

Interest Rate Risk

The municipality's interest rate risk arises from long-term borrowings from DBSA.

At year end, financial instruments exposed to interest rate risk were as follows:

Loan from Development Bank of South Africa.

FNB Bank Call deposits.

FNB Bank, ABSA and Ithala Bank Notice deposits.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they become due. The municipality ensures that adequate funds are available to meet its expected and unexpected financial commitments.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The following liabilities were due within 1 month:

Consumer deposits R2,733,270(**2020**) R746,010(**2019**)

Payables from exchange transactions R294,356,270(**2020**) R230,812,856(**2019**)

Unspent conditional grants R68,183,713(**2020**) R26,270,482(**2019**)

The following liabilities were due from 1 month to 12 months:

Borrowings R866,202(**2020**) R858,722 (**2019**).

Interest accrued on long term loan R95,064(**2020**) R118,236 (**2019**)

Maximum credit risk exposure

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterpart. The investments are diversified among the reputable commercial banks.

Receivables from exchange transactions are settled on a monthly basis. Upon the new connections the consumers pays deposit in advance.

Receivables from exchange transactions comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Receivables from exchange transactions	60,611,271	44,747,724
Other receivables from exchange transactions	2,622,915	9,249,249
Cash and cash equivalents	60,180,567	40,138,827

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2020, deviations from Municipal Supply Chain Management Regulations amounted to R4,660,977 for the year.

46. Distribution losses

Electricity distribution losses

				12,101,038
Electricity distribution loss calculated as:				
Electricity purchases	2020		2019	
	kWh units	Rand	kWh units	Rand
12,816,252	21,347,699	12,208,393	18,092,297	
(2,828,188)	(5,030,014)	(3,805,324)	(5,991,259)	
	9,988,064	16,317,685	8,403,069	12,101,038

Water distribution loss calculated as:

		2020		2019
Water distribution losses	KI	Rand	KI*	Rand
	4,972,518	34,310,377	3,752,471	16,886,120
Water Loss %	27	27	-	-

47. Going concern

As at 30 June, 2020, the municipality had an accumulated surplus of R 1,992,952,411, however, we draw attention to the fact that the municipality's current liabilities exceed its current assets by R 79,060,490.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the Provincial and Governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.